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ABSTRACT

Extending the charitable deduction to all taxpayers, not just those who itemize, would help protect the deduction from the unintended, indirect, and adverse effects of other changes in tax laws, such as increases in the standard deduction. Recent trends to simplify the tax law and to induce more taxpayers to utilize the standard deduction have significantly narrowed the incentive effect of the charitable deduction and has seriously reduced the flow of funds to charities. Extending the charitable deduction to all taxpayers would increase the total amount of real revenues available to support community activities and help alleviate public problems. Over 85 percent of the revenues "given up" would show up as a reduction in taxes for current non-itemizers, those 77 percent of all taxpayers who use the standard deduction and have predominantly low and middle incomes. The theoretical tax policy arguments for extending the charitable deduction are presented, and it is contended that the deduction would not unduly complicate tax compliance. The nature of the American system has from its inception encouraged voluntary associations and institutions as one way to serve the public good, and support for charitable organizations has been a cornerstone of this pluralistic society. Background material concerning the proposed legislation to extend the charitable deduction is appended. (SW)

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A GUIDE TO TAX POLICY AND HIGHER EDUCATION

TAX STUDIES PAPER NO. 5

The Case for the Charitable Deduction: Extending Eligibility to Every Taxpayer

August 1978

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THE CASE FOR THE CHARITABLE DEDUCTION:

EXTENDING ELIGIBILITY TO EVERY TAXPAYER

The Case for Extending the Charitable Deduction to All Taxpayers

All taxpayers, not just those who itemize, should be permitted to deduct their charitable contributions in calculating their income taxes. Extending the charitable deduction to all taxpayers is essential and sound public policy.

- First, this change would help to insulate the charitable deduction from the unintended and indirectly harmful consequences of other unrelated changes in tax law, especially the several substantial increases made in the standard deduction (now called zero bracket amount) over the past decade. Charitable gifts would have been over $1.3 billion greater in 1977 had the standard deduction not increased several times since 1970, according to econometric studies done by Professor Martin Feldstein of Harvard University in 1977.

- Second, this change would be very effective, efficient and fair, yielding over $1.20 in additional charitable donations for every $1.00 lost in tax revenue. This change would increase charitable giving by at least $4.16 billion in 1978 over what it will be if the tax laws remain unchanged, according to similar econometric studies completed in April, 1978. It would also be fairer to low and middle income taxpayers than is current law.

- Third, this change would be more consistent with income tax theory and the practical assumptions underlying our tax system than is current law.

- Fourth, this change would strengthen the underlying democratic pluralism of our society by giving recognition to every taxpayer for the public character of his private voluntary giving, and by encouraging broader and more responsive participation by all citizens in the public life of their communities and nation. For higher education, such a change would provide deserved public recognition to smaller donors, and would encourage younger alumni and alumnae to participate more fully in annual fund drives and other activities, thus ensuring greater participation by them in later years as well.

Congressional Support

This year, members of both the U.S. House of Representatives and the U.S. Senate have introduced legislation (H.R. 11183 and S. 3111) to extend the charitable deduction to every taxpayer.[1] The Commission on Private Philanthropy and Public Needs (the Filer Commission) and others have advocated this change in tax law in the past.[2]

Insulating Giving Against the Adverse Indirect Effect of Increasing the Standard Deduction

Making every taxpayer eligible for the charitable deduction would help protect the deduction from the unintended, indirect and adverse effects of other changes in tax laws, such as increases in the standard deduction.

The charitable deduction is a powerful incentive to charitable giving. Yet, under present law an individual must itemize deductions in order to take a deduction for his charitable contributions. Recent trends in tax legislation have resulted in a tremendous decline in the percentage of persons who itemize, and thus have significantly narrowed the incentive effect of the charitable deduction. In the past decade, the standard deduction has been raised five different times, in total an eight-fold increase for a married couple, from a minimum of $400 in 1968 to $3,200 in 1977.[3] Today, approximately 77 percent of all taxpayers elect the standard deduction, compared to 52 percent in 1970. The result of these trends is that the charitable deduction is "in danger of being squeezed out of existence."[4]

This gradual narrowing of the availability of the charitable deduction to taxpayers has had a serious impact on the flow of funds to charities. Calculations based on econometric studies by Professor Feldstein and on unpublished analyses by Dr. Hayden Smith of the Council for Financial Aid to Education (CFAE) in New York, have strongly suggested that charitable gifts would have been $1.357 billion greater in 1977 alone had the standard deduction not increased since 1970. The increases in the standard deduction provided by the 1977 Tax Reduction and Simplification Act alone accounted for about $615 million of this amount.[5,6]

President Carter's early 1978 tax law recommendations to limit the deductibility of certain itemized deductions, principally for taxes, medical expenses and interest, would, if enacted, further increase to 84 percent the proportion of all taxpayers who will elect the standard deduction.[7] This change would further reduce charitable giving in 1978 by $668 million below what it will be if no changes are made in tax law.[8]

Another example may dramatize even more this issue. Were all of President Carter's early 1978 major tax proposals affecting individuals to be enacted into law this year, 1978 gifts to charity would be lower than otherwise by about $770 million. Even if H.R. 11183 (Fisher-Conable) or S. 3111 (Moynihan-Packwood) were to be also enacted into law, charitable giving would still be less than if the charitable deduction were simply extended to all taxpayers without any other change in tax law.[9]

In short, all these examples show the unintended but nonetheless pernicious indirect effects on charitable giving of these various proposals to simplify the tax law and to induce more taxpayers to utilize the standard deduction. The effect of all these simplification changes since 1970 on charitable giving are cumulative. Extending the deduction to every taxpayer can only partially offset the effect of these other changes, but doing so would at least help to neutralize the unintended, indirect effects of tax simplification on charitable giving.

Effectiveness, Efficiency and Fairness

The practical reasons for extending the charitable deduction to all taxpayers are by themselves sufficient to warrant such a change in tax law. But even under the currently dominant school of tax theory in Washington, this proposal is meritorious and socially beneficial. This proposal would be effective, efficient and fair.[10]

It would be effective by increasing charitable giving in 1978 by at least $4.16 billion, an average increase to philanthropic institutions of 12 percent, over what it would otherwise be if no changes were made in current tax law.[11]

It would be efficient. Professor Feldstein has estimated that charitable gifts would increase by at least $4.16 billion at a "cost" to the Treasury in revenues "given up"[12] of about $3.7 billion. Publicly sanctioned and certified charities would receive about $1.20 in additional gifts for every $1.00 of tax revenues "given up." Thus, this proposal would actually increase the total amount of real revenues -- taxes plus charitable gifts -- available to support community activities and to deal with major public problems. By both measures -- the ratio of increased charitable gifts to revenues "given up," and the increase in total revenues available to devote to the public and community good compared to reliance on either taxation or voluntary giving alone -- extending the charitable deduction to every taxpayer would be remarkably efficient.

Moreover, it would be particularly efficient for low and middle income taxpayers who currently do not itemize their deductions and who

use the standard deduction, about 77 percent of all taxpayers. Statistical estimates by Professor Feldstein and by Professor Michael Boskin of Stanford University of the responsiveness of these taxpayers to actual historical tax changes affecting charitable giving strongly suggest that they would, on the average, give at least $2.00 in additional charitable gifts for every $1.00 in taxes saved under this proposal.[13] Thus, contrary to assertions sometimes made by critics of H.R. 11183 and S. 3111, lower and middle income households would be even more responsive to tax incentives for charitable giving than upper income households. But, under current law, these taxpayers cannot avail themselves of the charitable deduction.

It would be fair. Over 85 percent of the revenues "given up" would show up as a reduction in taxes for current non-itemizers, that is for the 77 percent of all taxpayers who elect to use the standard deduction and who have predominantly low and middle incomes.[14] It would thus give recognition to <u>every</u> taxpayer making charitable gifts for these publicly worthy voluntary acts, not just to the 23 percent who itemize. It would also ensure that persons using the standard deduction and making a charitable contribution would no longer be treated the same as persons using the standard deduction and not making such gifts. At worst, moreover, even if one were to assume that no extra charitable giving would result, H.R. 11183 or S. 3111 would simply provide a $3.2 billion tax cut for low and middle income taxpayers.

However, since unrefuted econometric studies predict large increases in charitable giving from passage of these bills, and since large tax cuts for lower and middle income taxpayers are on everyone's tax agenda for 1978, it would be in the public interest to provide some part of these tax cuts by allowing every taxpayer to take the charitable deduction. More resources are thus provided to meet public and community needs. More citizens will have a sense of participation in determining priorities for public and community activities and will be induced to take a more active part in these activities. And, over time, more citizens are likely to increase their average gift in support of charitable activities.[15] In sum, extending the charitable deduction to all taxpayers would significantly reduce taxes of lower and middle income persons. It would also increase donations to philanthropic causes vital to our society's well-being. And these increased donations would be greater than the corresponding reduction in tax revenues.

Tax Theory and Fairness

A strong and persuasive case can be made that the charitable deduction is essential to the theoretically correct calculation of income under an ideal model of our income tax system. The deduction is thus an "income-defining" deduction, and as such is an inherent and essential part of the tax system, not some "loophole" or "tax subsidy."[16] Under this theory, Congress' failure to allow every taxpayer a deduction for

charitable gifts results in the government's receiving tax revenues to which it has no right. Basic fairness dictates that the deduction be made available to every taxpayer making gifts no matter what the level of revenues "given up," since these revenues are not rightfully the government's to begin with.

The theoretical tax policy arguments for extending the charitable deduction to every taxpayer basically rest on the notion that money voluntarily given to worthy public causes should not be counted as "income" in an income tax system that taxes a person in accord with his ability to pay. A person's annual ability to pay tax is properly measured by his annual personal consumption and annual net accumulation of wealth. Charitable gifts contribute to neither personal consumption nor accumulation. In the case of amounts donated to education and other charitable activities, the benefits produced have the character of public goods where consumption by one person does not preclude consumption by others. No one individual should be taxed as if he had consumed the goods himself.[17] Only a full exclusion of charitable contributions from the income tax base -- through the allowance of a deduction of contributed amounts for all taxpayers -- guarantees that individuals will not be taxed on amounts they devote to public use through philanthropic giving.[18]

Thus, current law is demonstrably unfair in that lower and middle income donors who do not itemize deductions are deprived of a charitable deduction which ought to be theirs as a matter of right under tax theory. Some opponents, however, will argue that the standard deduction already incorporates or takes into account charitable giving by non-itemizing taxpayers, but they are in error. First, the purpose behind the standard deduction, now the zero bracket amount, is to establish the levels of income, depending on taxpayer status, below which no income taxes are to be assessed. It is not automatically to equate with some ideal package of itemized deductions. Second, it is erroneous because it would, under this theory, purposefully penalize taxpayers who do not itemize but who give to charity anyway and reward those who give nothing or less than the equivalent prorated amount but claim the full standard deduction instead. Such a theory would directly contradict the purpose behind the charitable deduction.

It is more reasonable to conclude that this failure in current law to allow all taxpayers to take the charitable deduction is an inadvertant error, causing unfair treatment of and the over-taxation of non-itemizing taxpayers, and is in need of immediate correction. In short, any limitation on deductibility of charitable donations by all taxpayers can be justified only by compelling and countervailing considerations which simply do not exist.

Pluralism and the Nature of American Society

Perhaps the most important reason for extending the charitable deduction to all taxpayers is not its appropriateness as a matter of income tax theory, nor its efficiency and fairness, nor even the important practical advantages for philanthropic activities, but rather something much more fundamental to the American system. The genius of American society is our recognition that direct governmental action is not the only way to serve public needs and provide for the community well-being. In fact, it may not always be the best way, for government, like all institutions of human construct, has its inherent limitations as well as its unique strengths.

From the very beginning of our democratic Republic, our laws and customs have encouraged voluntary associations and institutions as another way to serve the public good efficiently and on a particularly human scale. Moreover, there has been the implicit recognition that a society which can attract and engage the voluntary energies and talents of its members in the satisfaction of common needs will be more vital, caring and resilient than one in which its members expect agencies of government to do everything for them.

Thus, our Congress has for over sixty years encouraged citizens to direct their energies to the solution of common problems by the charitable deduction and by other laws intended to foster and encourage non-profit, philanthropic institutions to meet public needs. The results have been a larger flow of financial resources -- taxes plus voluntary gifts -- directed to common problems than it would be possible to sustain depending on either voluntary efforts or governmental coercion alone, and the energetic and active participation in public life, broadly defined, of a substantial part of our society's membership. Not only does this mixed, pluralistic system induce people to reduce voluntarily their personal incomes well below that level that would be caused by taxation alone, but it provides for a voluntary supply of dedicated, talented manpower involved in its several communities far in excess of that which could be purchased in the marketplace or coerced into service.[19]

Thus, private philanthropy has always been a cornerstone of our pluralistic society. Support of charitable organizations has profoundly distinguished the character of American life. But a tax adjustment for charitable giving limited to the 23 percent of taxpayers who itemize deductions threatens the universality of American participation in the philanthropic sector and the vitality of the whole society. By extending the charitable deduction to all taxpayers, the Congress would take a major step toward ensuring continuing fulfillment of our pluralistic ideals.

Administrative Complexity

Despite the practical and philosophical arguments in favor of extending the charitable deduction to every taxpayer, the opponents of this proposal rely on one additional argument. They contend that such a change will unduly complicate tax compliance. But for the individual taxpayer, under a system that relies largely on self-compliance, this is not the case. Only one additional line on the tax form is necessary, and it would be easy to understand. Moreover, it is the fair and correct theoretical tax treatment for charitable giving.

This argument thus boils down to a concern of the Internal Revenue Service that the auditing side of tax administration will become more complicated. Interestingly enough, the Service's solution would be to couple extension with a "floor" (e.g. only allowing a deduction for contributions in excess of three percent of adjusted gross income or $500, or some similar threshhold). This would, of course, unduly complicate life for individual taxpayers, and would clearly discourage charitable giving. Professor Feldstein estimates that extending the charitable deduction to every taxpayer and including a floor of $100 for those persons still using the standard deduction would cost charities at least $236 million, and perhaps a great deal more depending on assumptions made about taxpayer reaction to such constraints.[20]

More finely focused administrative tools are available to deal with whatever minor compliance problems may arise under this proposal. (It should be noted that overreporting is not likely to be one of these. The University of Michigan Survey Research Center's 1974 survey revealed that taxpayers did indeed give about what they reported to the IRS.[21]) Reliance on a crude and unnecessarily complicated "floor" mechanism that threatens charitable giving would not be the best nor most creative way to ensure compliance. Moreover, these compliance problems exist under present law. Tighter auditing and other administrative mechanisms already in use would seem the more sensible approach.

Conclusion

Extending the charitable deduction to every taxpayer, without a floor, is a sensible, practical and creative proposal that will benefit our society many times over. It should be enacted now.

NOTES

[1]H.R. 11183, introduced in February, 1978, and H.R. 12291, the same bill as H.R. 11183 and listing additional co-sponsors. See also The Congressional Record, (April 3, 1978) at H 2395.

Over forty members of the House, led by Representatives Joseph L. Fisher (D-VA) and Barber B. Conable, Jr. (R-NY), have co-sponsored legislation -- (H.R. 11183) -- to extend the charitable deduction to each taxpayer, whether or not he uses the long form or the short form, or takes the standard deduction (now the zero bracket amount).

H.R. 11183 was carefully drafted to minimize revenue losses or changes in tax consequences due to the interaction of the charitable deduction with other unrelated provisions of the tax code, while at the same time giving every taxpayer the deduction for charitable giving. Thus, it does not change the definition and calculation of adjusted gross income for such purposes as computing the allowable deduction for medical expenses, and it does not affect the calculation of tax liability under the so-called minimum tax on items of tax preference income.

Representative Conable had filed an earlier bill in January, 1978, which was a pure "above-the-line" approach. It would have made the charitable deduction an adjustment to gross income, not a personal itemized deduction. While theoretically the more correct solution, it was politically more vulnerable to attack on the grounds that certain indirect effects would especially provide tax benefits to higher income taxpayers. Thus, Representatives Fisher and Conable incorporated provisions in H.R. 11183 to ensure to the extent feasible that the only changes in tax liability for any taxpayer would flow directly and solely from changes in his charitable giving.

The House Committee on Ways and Means on April 20, 1978, tentatively approved the Fisher-Conable proposal as part of the pending 1978 tax bill. The actual vote was 19-18. The recorded vote of 20-17 reflects one opposing member's decision to vote in the affirmative so he could move for reconsideration at a later time.

On July 27, 1978, the Committee reversed itself and defeated this proposal, offered as an amendment to the pending tax bill, by a vote of 22-15. For reasons unrelated to the merits of the proposal, several supporters voted no on the amendment.

In the U.S. Senate on May 19, 1978, Senators Daniel Patrick Moynihan (D-NY) and Robert Packwood (R-OR), filed S. 3111, a counterpart to

H.R. 11183, the Fisher-Conable bill. It will be taken up by the Committee on Finance of the U.S. Senate when that committee takes up major tax legislation in 1978.

It will be a difficult struggle to persuade the Congress to enact this legislation during 1978. But, even if unsuccessful, work done this year will lay a crucial foundation for continuing efforts in the next Congress. As a general rule, new tax law proposals rarely are adopted the first time they are considered by the Congress. As was the case in the House Committee on Ways and Means with respect to "above-the-line" treatment of charitable gifts, new proposals often are defeated not because of their lack of merit but because they become entangled with strategies and tactics concerning other amendments. Once again, this underscores the importance of developing broad constituent support for extending the charitable deduction to all taxpayers and for encouraging our representatives to keep votes on issues directly affecting charitable giving from becoming entangled with unrelated issues.

[2]Report of the Commission on Private Philanthropy and Public Needs, Giving in America (1975), p. 20. As an additional incentive, the Commission proposed that families with incomes below $15,000 a year be allowed to deduct twice the amount of their giving, and those with incomes between $15,000 and $30,000 be allowed to deduct 150 percent of what they contribute.

[3]The House Committee on Ways and Means voted on July 27, 1978, to raise the standard deduction (zero bracket amount) to $2300 for single taxpayers and to $3400 for taxpayers filing joint returns. The full House approved these increases on August 9, 1978, and sent the tax bill to the Senate. If eventually signed into law, these changes would further erode the charitable deduction and depress giving below what it would otherwise be were the tax law to remain unchanged.

[4]Statement by Senator Edward M. Kennedy on Fundamental Tax Reform, 123 Congressional Record S 11,412 (daily ed. July 1, 1977). Senator Kennedy's solution to universalize tax incentives for charitable giving is to replace the charitable deduction with a 30 percent credit rather than to extend the charitable deduction to taxpayers who elect the standard deduction. There are, however, serious problems with the tax credit approach which are detailed in a soon-to-be released "Tax Studies Paper" titled, "The Case for the Charitable Deduction: A Deduction, Not a Credit." These defects include: the disproportionate impact of a tax credit upon giving to certain charities such as cultural organizations and educational institutions; the likely conflict with the First Amendment principle of separation of church and state; the adverse effect on equity of a credit compared to a deduction; and the theoretical weakness of a

credit compared to a deduction for charitable giving in calculating taxable income under our income tax system. The Treasury also has recognized the defects of a tax credit approach and recommended to President Carter that it not be proposed. See "Tax Reform Option Papers," p. 25, infra, n.7. Unfortunately, Treasury, without explanation, also opposed the alternative of extending the charitable deduction to non-itemizers.

[5]Fleming, Gregory J., "Tax Reform, '77: What It Might Do to the Philanthropy Sector," Tax Notes (September 12, 1977), p.4. Note, however, that despite all these changes in the standard deduction, there was still a net increase over 1970 in annual charitable giving in 1976. This is due to higher incomes shifting taxpayers into higher brackets. But without these increases in the standard deduction, or, better, if along with these increases in the standard deduction, the charitable deduction had been made available to every taxpayer, giving to charity would have been even greater than it was. Only by extending the charitable deduction to every taxpayer will these detrimental indirect effects on charitable giving be offset to any extent at all.

[6]For further discussion of this interaction between the standard deduction and the charitable deduction, see "Introduction," A Guide to Tax Policy and Higher Education, National Association of Independent Colleges and Universities, (January 30, 1978), p.5.

[7]"Tax Reform Option Papers," Daily Report for Executives, Special Supplement (October 7, 1977), Bureau of National Affairs, pp. 22-26.

[8]Unpublished econometric simulation of April 9, 1978 (Run No. 4/10-2), by Professor Martin Feldstein, Harvard University.

[9]Unpublished econometric simulations of April 4, 1978 (Run No. 4/3-1) and April 12, 1978 (Run No. 4/11-9), by Professor Martin Feldstein, Harvard University.

[10]For a summary of the principal arguments about income tax theory put forth by the members of this currently dominant school of tax theory, see "Introduction," A Guide to Tax Policy and Higher Education (January 30, 1978), National Association of Independent Colleges and Universities, pp. 2-4. Members of this school assert that existing U.S. personal income tax provisions that are not essential defining elements of their ideal income tax model should be classified as "tax expenditures" in that they could all be transformed into direct governmental spending programs. They propose that each provision be evaluated

according to a three part test of effectiveness (does the provision cause the desired activity or behavior?), of efficiency (does the provision "cost" more in "lost" tax revenues than it induces taxpayers to devote to the desired acitivity?), and of equity (does it promote or diminish horizontal equity -- taxing people with the same economic income at the same rates and under the same rules -- and vertical equity -- taxing higher income people at higher effective marginal tax rates than lower income people?). Provisions that satisfy this test are still called "tax expenditures" under this theory, but they are also acceptable as part of tax law. Proponents of this theory, however, doubt whether any such provision can satisfy this three part test, especially if compared to a direct spending program structured the same way as the tax provision in question. Any provision failing this test is branded a "tax loophole."

Needless to say, this currently dominant school of tax theory does not go unchallenged on two grounds. First, there are other tax theorists and practitioners who criticize this currently dominant model as theoretically deficient in describing an ideal personal income tax system. Second, there are critics who challenge the assumption made by the advocates of this school that the U.S. personal income tax system is based or should be based on this particular ideal model. For more on this subject, see "Selected Readings in Taxation and Higher Education," and "Tax Study Paper No. 1, Background on the Theory and Practice of Federal Taxation and the Charitable Deduction" (work in progress), A Guide to Tax Policy and Higher Education (January 30, 1978), National Association of Independent Colleges and Universities.

[11] Unpublished econometric simulations of April 4, 1978 (Run No. 4/3-1) by Professor Martin Feldstein, Harvard University.

[12] While this idea of revenue "given up" is useful to illustrate the efficiency of the proposal in generating far more in donations than it causes in revenue losses, it also is misleading. As is explained in the next section, a strong case can be made that the non-itemizing taxpayer as a matter of sound tax theory should be allowed to deduct his charitable giving. If so, this means that the government is currently taking taxes from him to which it has no right in theory. Thus, the idea of revenue "given up" is illegitimate. To be consistent with tax theory and basic fairness, the non-itemizing taxpayer should be granted the deduction for charitable giving without regard to revenue "given up" since that taxpayer is currently being unfairly over taxed.

[13] Boskin, Michael J. and Feldstein, Martin, "Effects of the Charitable Deduction on Contributions By Low Income and Middle Income Households: Evidence From the National Survey of Philanthropy," 59 The Review of Economics and Statistics 351 (August, 1977). (Note, to be very con-

servative, Professor Feldstein used a much lower estimate of taxpayer responsiveness to changes in tax law with respect to charitable giving in the econometric simulation of the proposal to extend the charitable deduction to every taxpayer. This measure of responsiveness is technically called the price elasticity of giving. He used an average estimate of price elasticity of about 1.20 for all taxpayers. Thus, the results of this econometric simulation of this proposal very probably substantially understates its effect on giving by low and middle income taxpayers.)

[14]Unpublished econometric simulation of April 4, 1978 (Run No. 4/3-1), by Professor Martin Feldstein, Harvard University. Note also that even according to the separate estimates prepared by the staff of the Joint Committee on Taxation, over 85 percent of the decrease in taxes that would result in this proposal would go to taxpayers whose annual incomes were under $30,000. About 60 percent would go to taxpayers earning less than $20,000 in annual income. [See Table 5, Memorandum of Joint Committee on Taxation, "Fisher-Conable Amendment on Charitable Contributions," Congress of the U.S. (May 6, 1978), Washington, D.C.]

[15]The 1974 University of Michigan Survey Research Center study showed that families with adjusted gross incomes between $10,000 and $15,000 who itemized contributed on the average twice as much to charities as those who took the standard deduction ($407 vs. $201) and also gave about twice as much voluntary time and effort to charitable activities. This pattern was in evidence within every other income bracket as well.

[16]See n. 10, supra.

[17]For a more thorough development of this argument in tax theory, see Andrews, William D., "Personal Deductions in an Ideal Income Tax," 86 Harvard Law Review 309 (1972).

[18]To the extent that gifts to charity can be regarded as a reduction of income, it is appropriate that the deduction be made available to taxpayers who use the standard deduction. A similar conclusion was reached by Congress in the Tax Reform Act of 1976 when it extended the alimony deduction to taxpayers who elect the standard deduction. See Section 62(13) of the Internal Revenue Code.

[19]See n. 15, supra.

[20]Unpublished econometric simulations by Professor Martin Feldstein, Harvard University, run on April 12, 1978 (Run No. 4/10-10), and April 27, 1978 (Run No. 4/27-1). There are two different models tested in these simulations; it is not possible to choose between them econometrically on the basis of available historical experience and data. The more conservative result has been used in this paper.

[21]Sample Survey for the Commission on Private Philanthropy and Public Needs, by the Survey Research Center of the Institute for Social Research at the Univeristy of Michigan and the U.S. Census Bureau, 1974.